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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Every Silver Lining . . .

One of the major factors prompting this year's downturn in short-term interest rates has been a slowing of the growth of the money supply. During the quarter ending March 4, M-1A contracted at a 23.5 per cent seasonally adjusted annual rate while M-1B expanded at a modest 2.4 per cent annual rate, both well below the Federal Reserve's 1981 growth targets. These range from minus 4.5 to minus 2.0 per cent for M-1A and 6.0 to 8.5 per cent for M-1B. In terms of levels, M-1A currently stands $15.2 billion below its lower target boundary while M-1B stands approximately $1.2 billion short of its lower target.

What is more, the Federal Reserve recently announced that as much as 80 per cent of the growth of M-1B since the beginning of the year has been the result of the transfer of deposits from non-interest bearing checking accounts to interest-bearing, or NOW accounts. Indeed, in the absence of the nationwide introduction of NOW accounts, M-1B growth would have come to a virtual halt this year.

. . . Has A Cloud

This slowing in the growth of the transactions demand for money (as measured by M-1B) has, however, coincided with an unparalleled upsurge in the size of money market mutual funds. Since the beginning of the year, the assets of these funds, which are a component of the broader aggregate M-2, have been growing by $2.7 billion per week, reflecting the strong competitive position of the funds in a declining interest rate environment. The money funds pay several times the interest rate that banks and thrifts can pay on NOW accounts, although they both offer a relatively high degree of liquidity. As a result, banks and thrifts have been losing deposits to these funds. Not surprisingly, there have been calls for curbing these funds, in order to equalize the competition for deposits.

It, therefore, becomes interesting to speculate as to what the effects on the narrowly-defined monetary aggregates might be if restrictions were to be placed on the money funds. These could include the imposition of reserve requirements, which would tend to narrow their yield advantage relative to NOW accounts, or the removal of checking account privileges. Since many people use these funds as checking accounts, it seems reasonable to assume that lower yields and/or no checking privileges might cause some funds to be shifted back into interest-bearing checking accounts (M-1B). A shift of only 25 per cent of the money funds' assets into M-1B would push its year-to-date, annual growth rate to eight per cent, while a shift of one-third of such assets (about $35 billion) would push M-1B growth well above its upper target boundary. When considering that the money funds have grown by $30 billion since the beginning of the year, such shifts are not inconceivable. In this event, the Federal Reserve will have to decide whether a tightening of monetary policy would be called for — which, of course, would mean higher interest rates.

Petroleum Price Rises Slow . . .

Although the recently implemented deregulation of crude oil prices boosted the cost of most refined products, oil producers are finding substantial consumer resistance. In fact, as a result of the growing gasoline glut in the marketplace, some companies have already backed down by reducing wholesale quotes.

Consumers here and abroad have been cutting petroleum use significantly. In 1980, U.S. consumption of refined petroleum products declined by 2.6 per cent while total free world demand for petroleum products dropped by 5.4 per cent. So far this year, U.S. demand has declined even faster than in 1980. During the four weeks ending March 6, 1981, consumers and industry used petroleum at a rate of 16.5 million barrels per day, 10.7 per cent less than during the comparable period a year ago. Motorists used seven per cent less gasoline, while consumption of distillate fuel oil—which is primarily home heating oil and diesel fuel—was 10.7 per cent below the comparable period a year ago. This occurred while the weather was colder than last year (measured by population weighted degree days which are used by the Department of Energy as an indication of demand for residential heating fuel). Consequently, stocks of refined products and crude oil have soared, with gasoline supplies reaching a record level of 284.3 million barrels this month.

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. . . As World Supplies Grow

In light of declining world oil consumption, swelling inventories and declining spot prices on the Rotterdam and New York exchanges, the OPEC nations last week called an emergency meeting. Topics discussed were prices and production levels, especially in view of possible significant increases in output by Iran and Iraq, once their war ends. If Iran and Iraq resume substantial exports, prospects for a world oil glut will increase. Both of these countries will most likely want to produce as much oil as possible to restore their economies and to repair war damaged structures.

Their combined potential output is high. Currently, they are exporting slightly more than one million barrels per day. Prior to the Shah's overthrow, Iran was the free world's second largest crude oil exporter after Saudi Arabia at 5.2 million barrels per day, and Iraq was third, with exports of 2.6 million barrels per day. Before the onset of the war between the two countries, Iraq had moved into second place with production of 3.4 million barrels per day. Iran, however, has the capacity to produce seven million barrels per day according to installed capacity estimates. Since Iraq could supply up to four million barrels per day, world supplies could potentially swell by close to 10 million barrels per day. The current glut of oil here and abroad and the prospect of the supply-demand gap growing even wider is

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/11/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	125.486	– .908	+ 2.977
Loans to Depository Inst.	.768	– .531	– 2.670
Float	2.929	+ .145	– 1.575
Total Reserve Bank Credit	139.109	– 1.295	+ 4.140
Treasury Deposits with Federal Reserve Banks	3.022	+ .340	+ .082
Currency Outside Banks	118.595	– .147	+ 7.576
Member Bank Reserves:			
Required	38.868	– .611	– 3.463
Excess (Deficiency)	.160	– .537	+ .082
Total Reserves Held	39.028	– 1.148	– 3.381
Net Borrowed Reserves	.423	– .003	– 2.633
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	97.729	+ .651	+20.972
Monetary Aggregates†		**% Change Since Three Months Ago***	**Year Ago**
M-1A	365.7	– 22.5‡	– 2.1‡
M-1B	421.8	+ 4.6‡	+ 7.0‡
M-2 (February '81)	1,692.2	+ 5.2	+ 9.3
L (December '80)	2,373.5	+ 12.1	+ 10.3

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 3/20/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.39%	11.77%	11.48%
* Federal Agencies	12.79	12.50	12.67
* Project Notes–Taxfree (46% Taxable Equivalent)	11.48	11.67	11.85
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	13.20	13.15	

‡Finance Company Paper–Prime

5- 14 days	12.00%
15- 29 days	12.38
30-179 days	12.25
180-239 days	12.50
240-270 days	12.00

‡* Bankers' Acceptances

Apr.	12.90%
May	12.80
Jun.	12.80
Jul.	12.80
Aug.	12.65
Sep.	12.44

‡Industrial Paper–Prime

30- 89 days	12.65%
90-120 days	12.50

†Federal Funds Effective Rate 13.20%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,731	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,486	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	3.8%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Jan '81	8.4%	12.0%	16.8%
Change in Producer Prices*	Feb '81	9.6%	10.8%	15.6%
Civilian Employment (Thousands of Persons)†	Feb '81	97,927	97,696	97,817
Unemployment as % of Civilian Labor Force†	Feb '81	7.3%	7.4%	6.2%
Personal Income*	Feb '81n	$ 2,314	$ 2,299	$ 2,086
Leading Indicators Composite Index (1967=100)†	Jan '81	135.8	136.4	134.7
Industrial Production Index (1967=100)†	Feb '81n	150.8	151.5	152.6
Net Change in Consumer Installment Credit†	Jan '81	$ 0.87	$ 1.62	$ 2.73
U.S. Merchandise Trade Balance†	Jan '81	–$ 4.37	–$ 2.19	–$ 3.72
Plant and Equipment Expenditures*	2nd Q'81n	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Feb '81n	1,218	1,615	1,273
New Construction Expenditures*	Jan '81	$ 255.6	$ 242.4	$ 259.6
Total Business Inventories†	Jan '81	$ 461.8	$ 456.8	$ 431.4
Total Business Sales†	Jan '81	$ 338.7	$ 332.5	$ 312.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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expected to put downward pressure on prices, arresting the recent series of increases and result in modest declines in gasoline and other petroleum product prices.

Housing Takes A Dive

Among the gloomy statistics released last week was the sharp drop in housing construction. High mortgage rates have finally begun to take their toll on the number of new units started. New-home starts plummeted by 25 per cent in February to a seasonally adjusted 1.2 million unit annual rate—the lowest since last July.

A weakening in residential activity has long been expected. Mortgage rates began their upward climb in early fall and the commitment rate on conventional mortgages for home purchase has now been above 15 per cent since late last year. The number of building permits issued—a good harbinger of future housing activity—has been declining, on balance, since September. Sales of single family homes have been declining for months and the cost of owning a home rose by 20 per cent in 1980 compared with 1979.

Although the housing numbers had appeared fairly strong through January, a closer look reveals that recent gains have resulted solely from multifamily construction, some of which was supported by

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/4/81)	111,804	– 2,404	+17,705
New York City (3/4/81)	26,715	+ 35	+ 6,164
Commercial Paper (3/4/81)	131,927	+ 576	+13,562

Bank Loans

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Commercial and Industrial Loans			
Weekly Reporting Large Commercial Banks			
Nationwide (3/4/81)	169,985	+ 503	+ 9,186
New York City (3/4/81)	49,549	+ 172	+ 2,247
Total Loans Gross Adjusted			
Nationwide (3/4/81)	425,452	+ 2,236	+20,903
New York City (3/4/81)	100,313	+ 1,461	+ 8,231

Financial Markets

	Friday 3/20/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.40%	– 1.43	– 2.53
180-Day Bills†	11.70	– 1.74	– 4.15
Longest Bills†	11.50	– 1.84	– 3.78
Recent Issues:			
13⅝s 1/31/83	12.90	– .73	
14¼s 8/15/84	12.84	– .36	
13s 11/15/90	12.43	+ .43	
12¾s 11/15/10	12.00	+ .50	
Municipals:			
Bond Buyer—20 Bond Index* (3/19/81)	9.81%	– .53	+ .61
Blue List Total ($ Million)	$ 721	– $ 49	+ $ 237
30-Day Visible Supply ($ Million)	$2,252	+ $230	+ $1,237
Total	$2,973	+ $181	+ $1,474
Corporates:			
Moody's Aa Composite (3/19/81)	13.64%	– .27	+ .24
Money Mgr.—30-Day Supply ($ Million)	$3,800	– $335	+ $2,160
Stocks:			
Dow-Jones Averages:			
Industrials	992.80	+ 7.03	+ 207.65
Transportation	418.59	– 1.81	+ 168.49
Utilities	109.13	+ .22	+ 8.25
65 Stocks	382.89	+ .99	+ 98.43
Standard and Poor's 500 Stocks	134.08	+ .97	+ 31.77
N.Y.S.E. Composite Index	72.13	+ .81	+ 18.89
N.Y.S.E. Avg. Daily Vol. for Week (000's)	59,262	+ 4,464	+ 22,006

* 46% Taxable equivalent 18.17%.

† Bond equivalent.

International Rates

	Friday 3/20/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	13.25%	14.75%
1 month	13.50	15.13
3 month	14.00	15.13
6 month	14.13	15.25
1 year	14.13	14.88
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	13.30%	13.70%
Long Term (7 to 15 yrs.)	13.20	13.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/20/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02946	33.94
Canada	.8439	1.1850
Denmark	.1536	6.5175
France	.2048	4.8840
Germany	.4832	2.0695
Italy	.0009891	1011.00
Japan	.004784	209.05
Mexico	.04223	23.68
Netherlands	.4363	2.2920
Switzerland	.5299	1.8870
U.K.	2.2660	.4492

government housing programs. Since bottoming out last May, multifamily unit starts more than doubled to a seasonally adjusted 623,000 unit annual rate in January, the highest since September, 1979. In February, starts sank by 30 per cent, paced by a 35 per cent freefall in the number of starts in buildings with five or more units. It should be noted that most of the government funds that had been supporting this sector ran out in January.

The combination of high mortgage interest rates and home prices, along with reduced Federal subsidies should assure a subdued housing outlook for the next several months. Related industries such as lumber, wood products, building materials, metals such as copper, home furnishings and others will also be affected adversely. One area that has survived the housing slump, however, has been the home remodeling sector. While housing starts dropped by 26 per cent in 1980, investment in additions and alterations to residential structures expanded by 7.3 per cent, after adjustment for inflation. Spending has been stimulated by several factors. Among the more important was energy conservation efforts. These have caused consumers to insulate their homes or to make other adjustments to make them more energy efficient. The inability of some homeowners to sell their present dwellings has prompted many to renovate or expand their old homes, instead. Finally, since the amount of finance needed for home improvement is much less than that required when purchasing a home, high interest rates have had less of an adverse impact on this market. H

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When lack of money is fighting your plans for expansion and profit, Manufacturers Hanover Commercial Corporation can match your tough financial needs.

MHCC is expert in non-notification techniques, which means our program does not disrupt your credit and collection relationships.

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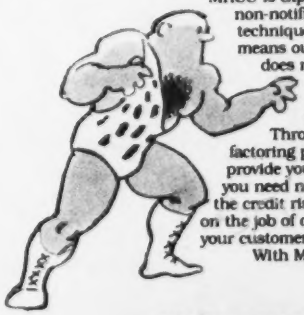

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